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Mr. Bruce

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December 17, 1952

My dear Mr. Attorney General:

As you are aware, the President has been considering a new approach to the Iranian oil dispute, a dispute which seriously threatens to deprive the free world of the oil resources of Iran and which threatens the integrity and political independence of Iran itself. This approach includes the utilization of the authority granted the President by the Congress in section 708 (a) and (b) of the Defense Production Act of 1950, as amended. Under this section, the President is authorized to approve a voluntary agreement or program under which one or more U. S. companies, acting in cooperation with the Anglo-Iranian Oil Company, would purchase and market Iranian oil and oil products. The President has also instructed the Department of State to engage in exploratory discussions with the representatives of the U. S. oil companies and with the Anglo-Iranian Oil Company for the purpose of determining what type of action by the President would produce the result desired. In a letter to you of December 3, 1952 by Mr. Harold Linder, Assistant Secretary of State for Economic Affairs, you were advised of this arrangement and of the fact that several senior officers of the Department had arranged to engage in exploratory discussion with representatives of certain U. S. oil companies.

The first of these discussions was held on December 4, 1952. It was attended by representatives of the Gulf Oil Company, Socony Vacuum Oil Company, Standard Oil Company of California, Standard Oil Company of New Jersey, and the Texas Company. Formal invitation was by letter, the text of which is enclosed. The representatives of the Government at the meeting were: Dean G. Acheson, Secretary of State; David Bruce, Under Secretary of State; Paul H. Nitze, Director of the Policy Planning Staff; Henry A. Byroade, Assistant Secretary of State for Near Eastern, South Asian, and African Affairs; Harold Linder, Assistant Secretary of State for Economic Affairs; Adrian S. Fisher, The Legal Advisor; Loy Henderson, Ambassador to Iran; and Jeffrey C. Kitchen, Special Assistant to the Secretary of State. The meeting was opened by the Secretary of State. In his remarks

The Honorable
James P. McGranery,
Attorney General.

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remarks the Secretary explained the present status of the dispute between the British and Iran and the extreme concern of this Government that there be a prompt solution to the dispute. He emphasized the importance of Iran to our national security and the deep concern of the Joint Chiefs of Staff with the situation. He indicated further that while we were thinking in terms of an arrangement which would enable Iran to sell its oil, and hence be able to pay compensation, it was also clear that the Government would not agree to any such arrangement unless there was a simultaneous agreement as to the proper method for determining compensation, or, if this could not be obtained, at least a lump-sum settlement.

After a general discussion on the political situation in Iran and the necessity of adhering to the U. S. principle that there should be adequate and effective compensation when there had been nationalization, the statement was made by the Government representatives that if a satisfactory arrangement were made on compensation, the Anglo-Iranian Oil Company had indicated that it would be prepared to purchase ten million tons per year, three-quarters of which would be in products and one-quarter in crude. If the Iranian Government was to have enough revenue to permit it to survive as a nation and if it was to be able to provide adequate compensation from sales of the oil and products, it would of course be necessary for Iran to be able to sell substantially more oil and products. The question was put to the representatives of the oil companies present whether it would be possible for the oil companies to move in the neighborhood of an additional ten million tons of oil per year. A general discussion followed which brought out the following points: (1) it would be necessary to work out a price which would not do violence to the fifty-fifty concept prevalent in the area; (2) it was essential to have an agreement for compensation; (3) it was essential that the solution have the consent of the British Government; (4) that while Iranian oil would of course find its way back into the market and be absorbed by the market, none of the oil companies had any particular desire to move this oil, as they had all taken steps to increase their production in other countries when the Iranian oil went off the market. In fact, it was generally understood that they might have considerable difficulty with the countries in which they had concessions when it should become necessary for them to cut back production in those areas because they were marketing Iranian oil. As result, the sentiment was expressed by the representatives of the oil companies present that, if possible, AIOC should take even more oil and that it would also be very desirable for Shell to absorb some of the Iranian oil which had to be moved.

Another meeting was held on December 9. Representatives of the same five companies were present. Representing the Government were:

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Dean G. Acheson, David Bruce, Paul H. Nitze, Henry Byroade, Harold Linder and Loy Henderson. At that meeting it was suggested that a possible solution might be the formation of a joint company which would pay out the AIOC and operate on a concession basis. Representatives of the Government made it clear that Iran would never agree to a concession. The alternative suggestions were made that a management company might be formed and operate the properties under a management contract which had many of the same elements. Representatives of the Government pointed out that although Iran would, of course, be willing to use foreign technicians, the Government of Iran would insist on reserving to itself the final power in managerial matters. There was considerable discussion of the problems of compensation, the relationship to the fifty-fifty formula, and the other problems discussed at the meeting of December 4. Finally, the representatives of the Government said that even though those problems had not been settled, the heart of the problem was whether it was possible to go on the assumption that American companies would be able to give, in effect, the AIOC an option to deliver something in the neighborhood of ten million tons a year. It was agreed that the possibilities of working this out were sufficiently good to warrant Mr. Nitze's giving such an indication to the British during his planned trip to London and Paris.

Sincerely yours,

/s/ Adrian S. Fisher

Adrian S. Fisher
The Legal Adviser

cc—U: Mr. Bruce
S/P: Mr. Nitze
NEA: Mr. Byroade
EUR: Mr. Perkins
L/E: Mr. Metzger
ARA: Mr. Leddy

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